

Advance Pricing Agreement (APA) Program in Saudi Arabia (KSA)



CONTEXT

KSA has significantly strengthened its transfer pricing framework in recent years, aligning with global tax standards. A key milestone in this evolution is the introduction of the Advance Pricing Agreement (APA) program by the Zakat, Tax and Customs Authority (ZATCA).

Further enhancing this framework, ZATCA issued comprehensive APA Guidelines in February 2025, providing detailed clarity on procedures, compliance, and implementation. This development marks a major step toward improving tax certainty and transparency in the Kingdom.

What is an APA?

An Advance Pricing Agreement (APA) is a formal arrangement between a taxpayer and the tax authority that determines, in advance, the appropriate transfer pricing methodology for related-party transactions. It ensures that transactions comply with the arm's length principle and reduces the likelihood of disputes during audits.

Regulatory Background in KSA

The APA program in Saudi Arabia was introduced through amendments to the Transfer Pricing Bylaws issued in March 2023 and became effective for financial years starting on or after 1 January 2024. Initially, the program was limited to unilateral APAs, meaning agreements are concluded solely between the taxpayer and ZATCA. This development marked an important step toward aligning Saudi Arabia's tax practices with global standards, particularly those recommended by international organizations such as the OECD, and demonstrated the Kingdom's commitment to improving investor confidence and reducing tax-related uncertainties.

February 2025 APA Guidelines: A Major Development

A significant milestone in the evolution of the APA framework was reached in February 2025, when ZATCA released its first detailed APA Guidelines. These guidelines were designed to provide comprehensive direction on the application, evaluation, and implementation of APAs in Saudi Arabia. By clearly outlining procedural steps and expectations, the guidelines enhanced transparency and ensured a more consistent approach in dealing with APA applications. They also emphasized the importance of cooperation and open communication between taxpayers and the tax authority, which is essential for the success of any APA program.

The February 2025 Guidelines formally integrated APAs into the Transfer Pricing Bylaws, thereby strengthening their legal standing within the Saudi tax framework. They introduced detailed eligibility criteria, including a minimum transaction threshold of SAR 100 million, while also allowing some flexibility in cases involving complex or interrelated transactions. The guidelines provided a clearly defined process that begins with an optional pre-filing consultation and progresses through formal application, detailed review, negotiation, and final agreement.

They also established clear timelines, requiring taxpayers to submit applications at least twelve months before the start of the relevant financial year, with the expectation that the process would generally be completed within about a year from submission.

Key features of the KSA APA Framework

- **Eligibility:** A taxpayer is generally eligible to enter the APA process if their annual related-party transactions exceed SAR 100 million. However, the tax authority may grant exceptions for particularly complex transactions even if this threshold is not met.
- **Timing and Submission:** An APA application must be submitted at least 12 months before the start of the first financial year to be covered by the agreement. This underscores the need for early planning and thorough preparation.
- **Period of Agreement:** Once approved, an APA is valid for an initial period of three years. It may be renewed for additional periods, provided that the underlying conditions remain consistent, and both parties agree to the extension.
- **Annual Compliance Reporting:** Taxpayers with an APA must submit annual compliance reports within 120 days after the end of each zakat or tax year covered by the agreement. These reports confirm adherence to the agreed transfer pricing methodology and terms.
- **Documentation:** APA applications must include detailed functional analysis of the parties involved, comprehensive economic analysis of the transactions, relevant financial data and a clearly defined proposed transfer pricing methodology.

The Road Ahead

The APA program in Saudi Arabia is still evolving but holds significant promise. As the framework matures, we can expect the introduction of bilateral and multilateral APAs, potential rollback provisions, and stronger integration with international dispute resolution mechanisms. These developments will further enhance investor confidence and reduce tax-related uncertainties.

Conclusion

For businesses operating in Saudi Arabia, transfer pricing is no longer just a compliance requirement it is a strategic consideration. The APA program offers an opportunity to proactively manage tax risks while building a transparent relationship with the tax authorities.

Saudi Arabia's APA regime is more than a regulatory development it is a clear signal of the Kingdom's commitment to a modern, globally aligned tax environment.



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